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Legislative Audit Division

State of Montana



Report to the Legislature

November 1998

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1998

Montana School for the Deaf and the Blind

This report contains one recommendation to improve internal controls over the segregation of duties for document processing in compliance with state policy.

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 1999, will be issued by March 31, 2000. Copies of the Single Audit Report, when available, can be obtained by contacting:

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Office of Budget and Program Planning
State Capitol
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Tori Hunthausen, IT & Operations Manager



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

November 1998

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana School for the Deaf and the Blind for the two fiscal years ending June 30, 1998. The school's written response is included in the back of the audit report.

We thank the superintendent and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,


Scott A. Seacat
Legislative Auditor



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Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1998

Montana School for the Deaf and the Blind

Members of the audit staff involved in this audit were Laurie Evans, Jim Manning, and Emlyn Neuman-Javornik.

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Appointed and Administrative Officials

Board of Public Education

Mark Racicot, Governor*

Nancy Keenan, Superintendent of Public Instruction*

Dr. Richard Crofts, Commissioner of Higher Education*

		Term <u>Expires</u>
Storrs Bishop, Chairperson	Ennis	2003
Joyce Silverthorne, Vice Chairperson	Dixon	2001
Kirk Miller	Havre	2002
Barbara Keim	Billings	2000
Wilber Anderson	Big Fork	1999
Bob Brown	Whitefish	2004
Diane Fladmo	Glendive	2005
Sara Casey, Student Representative	Helena	1999

*ex officio members

Montana School for the Deaf and the Blind

C. John Kinna, Superintendent

Bill Davis, Principal

Bill Sykes, Business Manager

For additional information regarding the school contact:

John Kinna, Superintendent
Montana School for the Deaf and the Blind
3911 Central Avenue
Great Falls MT 59405-1697
Office: (406)771-6000

email: johnkinna@met.mt.gov

Report Summary

Montana School for the Deaf and the Blind

This financial-compliance audit report contains the results of our audit of the Montana School for the Deaf and the Blind for the two fiscal years ended June 30, 1998.

The prior audit contained no recommendations directed to the school. This audit report contains one recommendation directed to the school, which is listed below.

We issued an unqualified opinion on the financial schedules contained in the audit report. This means the reader may rely on the presented financial information.

The listing below serves as a means of summarizing the recommendation contained in the report, the school's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend MSDB implement internal control procedures, in compliance with state policy, which prohibit shared user IDs. Page 4

MSDB Response: Concur. See page B-3.

Introduction

Introduction

We performed a financial-compliance audit of the Montana School for the Deaf and the Blind (school) for the two fiscal years ended June 30, 1998. The objectives of the audit were to:

1. Determine if the school complied with applicable state and federal laws and regulations.
2. Make recommendations for improvement in management and internal controls of the school.
3. Determine if the school's financial schedules present fairly the results of operations for the two fiscal years ended June 30, 1998.

This report contains one recommendation regarding internal controls over document processing. Concerns deemed not to have a significant effect on the successful operations of the school have been discussed with management.

Background

The Montana School for the Deaf and the Blind was founded in 1893 as part of the Montana State Training School at Boulder. In 1937 the school was moved to Great Falls and established as a separate and independent institution of the state of Montana. The school is under the general supervision, direction, and control of the Board of Public Education. Board members are appointed by the governor and confirmed by the Senate.

The purpose of the school is to educate children whose hearing or vision is impaired. This determination is made by the resident school district or the court system. In addition, the school serves deaf and blind children throughout the state through its itinerant/outreach program. In fiscal year 1993-94, the outreach program became a "fee for service" program. This caused a significant drop in usage, and the school could support only one resource consultant. However, during the 1995 Legislative Session, funding for the outreach program was reinstated beginning in fiscal year 1995-96. The school now only charges for the cost of large print/braille books and any other items requested by the school districts. The following schedule shows the number of students served and full-time equivalent employees at the school during the audit

Introduction

period. Employees include approximately 43 persons in the education program and 30 persons in student services.

Table 1
School Students and Staff

	<u>Fiscal 1996-97</u>	<u>Fiscal 1997-98</u>
Student Body		
Deaf/Hard of Hearing Students	64	62
Blind/Low Vision Students	<u>20</u>	<u>23</u>
Total Student body	84	85
Outreach Program		
Deaf/Hard of Hearing Children		48
Blind/Low Vision Children	171	161
Outreach Evaluations		
Audiological	107	96
Deaf	4	14
Blind	<u>5</u>	<u>26</u>
Total Students Served - Outreach	287	345

Full-time Equivalent Staff

82

84.6

Source: Prepared by the Legislative Audit Division from school records.

The school has three sources of funding: the General Fund, land grant income, and federal subgrants from the Office of Public Instruction.

The school works closely with the Montana School for the Deaf and the Blind Foundation, Inc. The foundation has a contract with the Board of Public Education to hold and manage assets donated for the benefit of the school. We have a disclosure issue in the Board of Public Education audit report regarding the relationship between the Board of Public Education, the foundation, and the School for the Deaf and Blind. For additional information regarding the foundation, refer to note 5 on page A-13.

Findings and Recommendations

Shared User ID

Segregation of duties is one of the basic principles of internal control. Proper segregation of duties dictates that even in a small organization, control functions should be segregated to ensure that no single individual has the opportunity to initiate a transaction or activity that is not subject to review or approval by an independent party in the organization. State policy has been established to ensure a basic level of segregation exists at all agencies for the preparation and approval of transfer warrant claims. A transfer warrant claim is a document that results in a state warrant being issued. State policy requires that the document preparation and approval must be performed by separate people. When the document processing is done electronically, state policy requires that the user ID number of the preparer must be different than the approver ID. The state accounting system has a built-in edit to ensure that a transfer warrant claim can not be processed unless, for each claim, there are two separate user ID numbers, one for preparer and one for approver.

During our review of controls over the expenditure process at Montana School for the Deaf and the Blind (MSDB) we asked how documents are processed when the person designated to approve them is gone. The MSDB employee who prepares the transfer warrant claims stated she had access to the approver's computer ID so she would log in on his computer and approve the documents in his absence. This is a serious circumvention of basic internal control. It enables one individual to prepare and approve the issuance of state warrants. Shared user ID's negates the controls designed in the state computer system and is in direct violation of state policy.

We reviewed the records and determined that 48 transfer warrant claims totaling \$20,348 were input and approved by the same individual when the designated approver was on leave. We reviewed these claims and did not detect any inappropriate or fraudulent activity in these claims. However, MSDB needs to implement procedures to ensure it maintains the segregation of duties as required by state policy. Procedures include changing the approver's password, designating another person to fulfill duties when personnel are absent or on leave, and ensuring that all staff

Findings and Recommendations

understand the importance of controls and the reason user IDs must not be shared.

Recommendation #1

We recommend MSDB implement internal control procedures, in compliance with state policy, which prohibit shared user IDs.

Independent Auditor's Report & School Financial Schedules

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, Schedules of Total Revenues, and Schedules of Total Expenditures of the Montana School for the Deaf & Blind for each of the two fiscal years ended June 30, 1997 and 1998. The information contained in these financial schedules is the responsibility of the school's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the school's assets and liabilities.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances/property held in trust of the Montana School for the Deaf & Blind for the two fiscal years ended June 30, 1997 and 1998, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "James Gillett".

James Gillett, CPA
Deputy Legislative Auditor

August 21, 1998

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SCHOOL FOR THE DEAF & BLIND
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

FUND BALANCE: July 1, 1997	General Fund	Special Revenue Fund	Agency Fund	Expendable Trust Fund
PROPERTY HELD IN TRUST: July 1, 1997	\$ (354,915) ¹	\$ 64,178	\$ 9,780	\$ 0
ADDITIONS				
Budgeted Revenues & Transfers-In	10,798	490,466		
Nonbudgeted Revenues & Transfers-In				56,657
Cash Transfers In (Out)	3,129,848			
Additions to Property Held in Trust			41,639	
Total Additions	3,140,646	490,466	41,639	56,657
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	2,964,232	454,142		
Nonbudgeted Expenditures & Transfers-Out				56,657
Prior Year Expenditures & Transfers-Out Adjustments	(478)	(1,540)		
Reductions to Property Held in Trust			39,976	
Total Reductions	2,963,754	452,602	39,976	56,657
FUND BALANCE: June 30, 1998	\$ (178,022) ¹	\$ 102,042	\$ 11,444	\$ 0
PROPERTY HELD IN TRUST: June 30, 1998				

1 See Note 2 on page A-12.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-11.

SCHOOL FOR THE DEAF & BLIND
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 1997

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	General Fund	Special Revenue Fund	Agency Fund	Expendable Trust Fund
FUND BALANCE: July 1, 1996	\$ (831,847) ¹	\$ 67,979	\$	\$ 0
PROPERTY HELD IN TRUST: July 1, 1996			7,697	
ADDITIONS				
Budgeted Revenues & Transfers-In	10,875	404,831		320,230
Nonbudgeted Revenues & Transfers-In				
Cash Transfers In (Out)	3,366,926		35,935	
Additions to Property Held in Trust			35,935	320,230
Total Additions	3,377,801	404,831		
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	2,899,334	408,632		320,230
Nonbudgeted Expenditures & Transfers-Out				
Prior Year Expenditures & Transfers-Out Adjustments	1,535		33,852	
Reductions to Property Held in Trust			33,852	320,230
Total Reductions	2,900,869	408,632		
FUND BALANCE: June 30, 1997	\$ (354,915) ¹	\$ 64,178	\$	\$ 0
PROPERTY HELD IN TRUST: June 30, 1997			9,780	

1 See Note 2 on page A-12.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-11.

SCHOOL FOR THE DEAF & BLIND
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

TOTAL REVENUES & TRANSFERS-IN BY CLASS				
	General Fund	Special Revenue Fund	Expendable Trust Fund	Total
Charges for Services	\$ 5,301	\$ 133,748		\$ 139,049
Federal Indirect Cost Recoveries		5,301		5,301
Sale of Documents, Merchandise and Property	2,116			2,116
Rentals, Leases and Royalties		5,828		5,828
Miscellaneous	3,381			3,381
Grants, Contracts, Donations and Abandonments			\$ 56,657	56,657
Other Financing Sources		225,932		225,932
Federal		119,657		119,657
Total Revenues & Transfers-In	10,798	490,466	56,657	557,921
Less: Nonbudgeted Revenues & Transfers-In				
Prior Year Revenues & Transfers-In Adjustments			56,657	56,657
Actual Budgeted Revenues & Transfers-In	10,798	490,466	0	501,264
Estimated Revenues & Transfers-In	(20,012)	203,676		183,664
Budgeted Revenues & Transfers-In Over (Under) Estimated	30,810	286,790	0	317,600
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Charges for Services	\$ 34,113	\$ 251,355		\$ 285,468
Federal Indirect Cost Recoveries		(1,199)		(1,199)
Sale of Documents, Merchandise and Property	(1,684)			(1,684)
Rentals, Leases and Royalties		21,045		21,045
Miscellaneous	(1,619)			(1,619)
Grants, Contracts, Donations and Abandonments				0
Other Financing Sources		25,932		25,932
Federal		(10,343)		(10,343)
Budgeted Revenues & Transfers-In Over (under) Estimated	30,810	286,790	0	317,600

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-11.

SCHOOL FOR THE DEAF & BLIND
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 1997

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	General Fund	Special Revenue Fund	Expendable Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS				
Charges for Services	\$ 5,649	\$ 96,598		\$ 102,247
Federal Indirect Cost Recoveries		5,649		5,649
Sale of Documents, Merchandise and Property	2,430			2,430
Rentals, Leases and Royalties		4,970	5,424	10,394
Miscellaneous	2,796			2,796
Grants, Contracts, Donations and Abandonments		203,592	314,806	314,806
Other Financing Sources		94,022		203,592
Federal		404,831		94,022
Total Revenues & Transfers-In	10,875		320,230	735,936
Less: Nonbudgeted Revenues & Transfers-In				
Prior Year Revenues & Transfers-In Adjustments				
Actual Budgeted Revenues & Transfers-In	10,875	404,831	0	415,706
Estimated Revenues & Transfers-In	(13,863)	304,744		290,881
Budgeted Revenues & Transfers-In Over (Under) Estimated	24,738	100,087	0	124,825
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Charges for Services	\$ 28,812	\$ 117,607		\$ 146,419
Federal Indirect Cost Recoveries		649		649
Sale of Documents, Merchandise and Property	(1,870)			(1,870)
Rentals, Leases and Royalties		15,217		15,217
Miscellaneous	(2,204)			(2,204)
Grants, Contracts, Donations and Abandonments		3,592		3,592
Other Financing Sources		(36,978)		(36,978)
Federal		100,087		
Budgeted Revenues & Transfers-In Over (under) Estimated	24,738		0	124,825

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-11.

SCHOOL FOR THE DEAF & BLIND
SCHEDULE OF TOTAL EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

PROGRAM EXPENDITURES BY OBJECT

	Administration Program	General Services Program	Student Services	Education	Donated Funds	Total
Personal Services						
Salaries	\$ 99,565	\$ 311	\$ 150,492	\$ 1,075,931		\$ 1,326,299
Hourly Wages	63,969	71,431	379,146	329,645		844,191
Employee Benefits	40,332	21,449	206,441	399,843		668,065
Total	<u>203,866</u>	<u>93,191</u>	<u>736,079</u>	<u>1,805,419</u>		<u>2,838,555</u>
Operating Expenses						
Other Services	13,618	27,527	4,575	23,603		69,323
Supplies & Materials	2,047	15,432	58,454	83,026		158,959
Communications	10,403	353	1,247	13,204		25,207
Travel	1,635	(118)	29,792	38,096		69,405
Rent	754		1,625	(49)		2,330
Utilities		111,017				111,017
Repair & Maintenance	212	25,962	1,144	11,159		38,477
Other Expenses	1,434	3,783	70	16,454	\$ 56,657	78,398
Total	<u>30,103</u>	<u>183,956</u>	<u>96,907</u>	<u>185,493</u>	<u>56,657</u>	<u>553,116</u>
Equipment & Intangible Assets						
Equipment			45,978	22,485		68,463
Total			<u>45,978</u>	<u>22,485</u>		<u>68,463</u>
Capital Outlay						
Buildings		11,340	1,539			12,879
Total		<u>11,340</u>	<u>1,539</u>			<u>12,879</u>
Total Program Expenditures	\$ <u>233,969</u>	\$ <u>288,487</u>	\$ <u>880,503</u>	\$ <u>2,013,397</u>	\$ <u>56,657</u>	\$ <u>3,473,013</u>

PROGRAM EXPENDITURES BY FUND

General Fund						
Special Revenue Fund	\$ 233,969	\$ 288,487	\$ 855,376	\$ 1,585,922	\$	\$ 2,963,754
Expendable Trust Fund			25,127	427,475		452,602
Total Program Expenditures	<u>233,969</u>	<u>288,487</u>	<u>880,503</u>	<u>2,013,397</u>	<u>56,657</u>	<u>3,473,013</u>
Less: Nonbudgeted Expenditures					56,657	56,657
Prior Year Expenditures Adjustments	(214)	446	(282)	(1,967)		(2,017)
Actual Budgeted Expenditures	<u>234,183</u>	<u>288,041</u>	<u>880,785</u>	<u>2,015,364</u>	<u>0</u>	<u>3,418,373</u>
Budget Authority	257,914	289,693	886,843	2,190,708		3,625,158
Unspent Budget Authority	<u>23,731</u>	<u>1,652</u>	<u>6,058</u>	<u>175,344</u>	<u>0</u>	<u>206,785</u>

UNSPENT BUDGET AUTHORITY BY FUND

General Fund						
Special Revenue Fund	\$ 23,731	\$ 1,652	\$ 20	\$ 127,278	\$	\$ 152,682
Expendable Trust Fund			6,038	48,066		54,104
Unspent Budget Authority	<u>23,731</u>	<u>1,652</u>	<u>6,058</u>	<u>175,344</u>	<u>0</u>	<u>206,785</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-11.

SCHOOL FOR THE DEAF & BLIND
SCHEDULE OF TOTAL EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 1997

PROGRAM EXPENDITURES BY OBJECT

	Administration Program	General Services Program	Student Services	Education	Donated Funds	Total
Personal Services						
Salaries	\$ 95,288	\$ 584	\$ 164,280	\$ 985,531		\$ 1,245,683
Hourly Wages	63,771	64,004	359,681	343,236		830,692
Employee Benefits	38,361	23,366	258,598	368,079		688,404
Total	197,420	87,954	782,559	1,696,846		2,764,779
Operating Expenses						
Other Services	28,098	32,826	7,288	10,924		79,136
Supplies & Materials	1,188	13,829	55,388	48,064		118,469
Communications	9,762	441	1,078	10,056		21,337
Travel	1,809		59,570	31,839		93,218
Rent	261	120	1,334			1,715
Utilities		91,663	56			91,719
Repair & Maintenance	742	27,533	1,521	8,890		38,686
Other Expenses	1,146	3,882	182	12,222	\$ 320,230	337,662
Total	43,006	170,294	126,417	121,995	320,230	781,942
Equipment & Intangible Assets						
Equipment		2,491	4,573	67,099		74,163
Total		2,491	4,573	67,099		74,163
Capital Outlay						
Buildings		6,259				6,259
Other Improvements		2,588				2,588
Total		8,847				8,847
Total Program Expenditures	\$ 240,426	\$ 269,586	\$ 913,549	\$ 1,885,940	\$ 320,230	\$ 3,629,731

PROGRAM EXPENDITURES BY FUND

General Fund	\$ 240,426	\$ 269,586	\$ 885,291	\$ 1,505,566	\$	\$ 2,900,869
Special Revenue Fund			28,258	380,374		408,632
Expendable Trust Fund					\$ 320,230	320,230
Total Program Expenditures	240,426	269,586	913,549	1,885,940	320,230	3,629,731
Less: Nonbudgeted Expenditures						
Prior Year Expenditures Adjustments		139	213	1,145	320,230	320,230
Actual Budgeted Expenditures	38					1,535
Budget Authority	240,388	269,447	913,336	1,884,795	0	3,307,966
Unspent Budget Authority	247,868	269,918	966,567	1,962,013		3,446,366
	7,480	471	53,231	77,218	0	138,400
UNSPENT BUDGET AUTHORITY BY FUND						
General Fund	\$ 7,480	\$ 471	\$ 50,338	\$ 42,964	\$	\$ 101,253
Special Revenue Fund			2,893	34,254		37,147
Expendable Trust Fund					0	0
Unspent Budget Authority	7,480	471	53,231	77,218	0	138,400

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-11.

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 1998

1. **Summary of Significant Accounting Policies**

Basis of Accounting

The Montana School for the Deaf and the Blind uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental and Fiduciary Funds. In applying the modified accrual basis, the school records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the school incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy also requires the school to record the cost of employees' annual leave and sick leave when used or paid.

Expenditures and expenses may include: entire budgeted service contracts even though the school received the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the Statewide Budgeting and Accounting System without adjustment, except for the Agency Fund which was reclassified to disclose total activity in fiscal year 1996-97. The differences for the Agency Fund are explained below.

Accounts are organized in funds according to state law. The school uses the following funds:

Governmental Funds

General Fund - to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. School

Notes to the Financial Schedules

Special Revenue Funds include School Trust Interest/Income, U.S. Department of Education grants, and U.S. Department of Agriculture grants.

Fiduciary Funds

Trust and Agency Funds - to account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds. The school fiduciary funds include the Agency Fund, which is used to account for student moneys and an Expendable Trust Fund used to account for donations remitted from the school to the MSDB Foundation. During the fiscal year ended June 30, 1997, the school recorded only the net addition to property held in trust in the Agency Fund on SBAS. The Agency Fund activity has been reclassified for fiscal year 1996-97 to reflect total additions of \$35,935 and total reductions of \$33,853.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. Each agency does not have a separate General Fund since its only authority is to pay obligations from the statewide General Fund within its appropriation limits. Each agency records cash or other assets from the statewide fund when it pays General Fund obligations. The school's outstanding liabilities exceed the assets the school has placed in the fund, resulting in negative ending General Fund balances for each of the two fiscal years ended June 30, 1997 and June 30, 1998.

3. Annual and Sick Leave

Noncontract employees at the school accumulate both annual and sick leave. The school pays these employees for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in the accompanying financial schedules. The school absorbs expenditures for termination pay in its annual operational costs. At June 30, 1997 and June 30, 1998, the school had a liability of \$211,056 and \$224,427, respectively.

4. Pension Plan

Employees are covered by the Montana Public Employees' Retirement System and the Teachers' Retirement System. The school's contribution

Notes to the Financial Schedules

to the retirement systems was \$150,729 in fiscal year 1996-97 and \$153,467 in fiscal year 1997-98.

5. --- Foundation

The Montana School for the Deaf and the Blind Foundation, Inc. was formed in October 1983, pursuant to section 20-8-111, MCA. The foundation performs duties for the school under a contract with the Board of Public Education. It files reports with the Board of Public Education demonstrating contract fulfillment. The Board of Public Education appoints the directors of the foundation. At least one member of the foundation board of directors is a member of the Board of Public Education. The superintendent of the school is the executive director of the foundation.

The foundation is to receive, hold, manage, use, and dispose of real and personal property given to the school or the Board of Public Education on behalf of the school, by purchase, gift, devise, bequest, or as otherwise acquired. The proceeds, interest, and income thereof are to be used for the benefit of the Montana School for the Deaf and the Blind. It is the intent of the foundation that its gifts to the school be used to supplement taxpayer funds. The foundation activity is not reflected on the accompanying financial schedules. The foundation reported it expended \$235,494 in support of the school during fiscal year 1996-97 and \$177,641 in fiscal year 1997-98.

6. --- Revenue Estimates

Revenue collections which reflect collections over estimate exceeding the current year collections is due to continuing revenue estimates where the total amounts collected in the current year plus any prior years collections exceeded the original revenue estimate.

School Response

SCHOOL FOR THE DEAF AND THE BLIND



STATE OF MONTANA

3911 CENTRAL AVENUE
GREAT FALLS, MT 59405-1697

Administration: (406) 771-6000
Education: (406) 771-6030
FAX: (406) 771-6164
TDD: (406) 771-6063

October 22, 1998

Mr. Scott A. Seacat
Legislative Audit Division
PO Box 201705
Helena, MT 59620-1705

Dear Mr. Seacat:

This letter is in response to your audit report on the Montana School for the Deaf and the Blind for the two year period ending June 30, 1998.

I offer the following in response to your audit recommendation(s).

Recommendation #1:

"We recommend MSDB implement internal control procedures, in compliance with state policy, which prohibit shared user IDs."

Response:

Concur. MSDB will not allow accounting clerks to use the approver's user ID to process SBAS documents during his absence. The school will explore establishing another approver to approve SBAS documents during the Business Manager's absence.

As always, it is a pleasure to work with your staff. Please contact Bill Sykes at 771-6002, if you have any questions.

Sincerely,

A handwritten signature in cursive script, appearing to read "C. J. Kinna".

C. J. Kinna
Superintendent

